MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BFN 3114 – TAX PLANNING

(Section BO1)

10 October 2016
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** printed pages including cover page with 3 questions only.
2. Answer **ALL** questions.
3. Please write all your answers in the answer booklet provided.
4. Marks allocations are shown at the end of each question.

QUESTION 1

a) With reference to Section 33 of the Income Tax Act 1967 (as amended), briefly explain the principle as regards to deduction of an expense against gross business income.

(5 marks)

(b) Pelangi Sdn Bhd was incorporated on 1 January 2016 and makes up its accounts annually to December 31. The business of textile manufacturing commenced on 1 February 2016. The company places an order to purchase a machine costing RM30,000 from Japan in April 2016. Transport charges to ship the machine was RM2,500. During the intervening 2-months period, the currency of ringgit Malaysia depreciated by 5% against the Japanese Yen. As a result, an exchange loss of RM1,625 was incurred on June 2016.

Required:

(i) Is the loss of RM1,625 arising from currency adjustments taxable under the Income Tax Act 1967? Briefly explain your answer.

(ii) Assuming the machine is used for the manufacturing of textile in the year 2016, determine the qualifying plant expenditure for the business for the year of assessment 2016.

(5 marks)

(c) Aneeza Bakery is a partnership business owned by Anisa and Leza. Besides sales from the bakery, it also took online orders from individual customers and organisation. Under the partnership agreement, the partners agreed to share profit and loss equally. The profit and loss account for the year ended 31.12.2015 was as follows:

	RM	RM	RM
Trading income			89,000
Less:			
Revenue expense		38,000	
Depreciation		10,000	
Entertainment to client (related to sales)		2,000	
General provision for doubtful debts		3,000	
Partnership expense			
Salary			
: Anisa	12,000		
: Leza	6,000	18,000	
Interest on capital			
: Anisa	2,000		
: Leza	2,000	4,000	(75,000)
Net profit			14,000

Continued...

Required:

With reference to the Income Tax Act 1967 (as amended), compute for Aneeza Bakery:

(i) The provisional adjusted income, and

(ii) The divisible income.

(10 marks)

QUESTION 2 **[Total: 20 Marks]**

a) Mr. Mueller is an Austria citizen. He arrived in Malaysia on 1 October 2014, for two years contract with GMart Automotive Sdn Bhd. During the two years contract, Mr. Mueller did not travel to any destination outside Malaysia. He returned to his home country on 30 September 2016, immediately at the end of the contract.

Required:

Determine the residence status of Mr. Mueller for the years of assessment 2014, 2015 and 2016 explaining the basis for your determination.
Note: You are required to quote the relevant sections of the law where appropriate.

(6 marks)

b) Mustapha is a Malaysian tax resident. Currently, he is employed by La' Veda Sdn Bhd as a senior marketing officer based in headquarter in Kuala Lumpur. Details of his employment income for the year 2015 are as follows:

- A total gross salary of RM96,000.
- A bonus of 2 months, RM16,000 received at the end of the year.
- A travelling allowance of RM12,000 per annum
- An entertainment allowance of RM7,000 per annum. During the year 2015, Mustapha spent RM3,500 on entertaining the company's clients. He kept all the receipts of the entertainment expenditures in his personal file.

La' Veda Sdn Bhd also provided Mustapha with the following benefits during the year 2015:

- Medical and dental benefits of RM2,000.
- Two local leave passage to Tioman Island and Langkawi Island, Malaysia of RM2,700 in total.
- One oversea leave passage to Bali, Indonesia of RM2,500.
- Proton car costing RM58,500 when new and for which the fuel cost was borne by Mustapha himself. The car is only used for official duties.

Mustapha's contributions to the Employee Provident Fund (EPF) in 2015 were RM7,740.

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Mustapha is married to Siti, a fulltime housewife. They have two children. Balqis (aged 21) is currently pursuing her degree course at a university in Australia since September 2014, while Muszafar (aged 17) is studying at a boarding school in Cyberjaya. Mustapha incurred RM30,000 and RM10,000 on their education expenses respectively.

He also took up an education insurance policy for Balqis and Muszafar during the year. The total premium paid for the policy in 2015 was amounted to RM2,700.

During the year, Mustapha also incurred other expenditure as follows:

- Medical expenses in respect of his parent and his parent in laws of RM3,000 and RM1,900 respectively.
- A donation of goods worth RM3,000 to an approved institution.
- Books purchased for his own personal use of RM1,300.

During the year, Mustapha also earned rental income of RM15,000 and single tier dividends from several companies listed in Bursa Malaysia of RM7,000. All of these incomes were received within the year of 2015.

Required:

Compute the income tax charged on Mustapha for the year assessment 2015 under the Income Tax Act 1967 (as amended).
Note: You should indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation. Round-up all figures. Marks will be awarded for the appropriate labelling of the stages of income.

(34 marks)

QUESTION 3

[Total: 40 Marks]

Kumari carries on a retail business selling textiles. On 1 January 2015, paid up capital of the business was RM450,000. She prepares accounts of the business on 31 December annually. For the year ended 31 December 2015, the income statement is as follows:

	Note	RM	RM
Sales	1		597,000
Less: Cost of sales	2		(330,000)
Gross profit			267,000
Add: Other income			
Dividends (gross)	3	15,000	
Interest	4	10,000	
Rental		24,000	
Profit on sale of fixed assets		18,000	67,000
			334,000

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Less: Expenses			
Salaries and wages	5	150,000	
Contribution to employee provident fund (EPF)		11,000	
Repair and maintenance expenses	6	15,000	
Donation	7	3,000	
Travelling	8	12,000	
General and administrative expense	9	6,000	
Entertainment expense	10	8,000	
Professional and legal fees	11	5,000	
Provision for bad and doubtful debts	12	7,000	
Other expenses	13	38,000	(255,000)
Net profit before taxation			79,000

Notes:

1. Included in sales are:

	RM
• Compensation received from a supplier for damaged goods	9,000
• Credit sales for the year 2015	183,000

2. Included in the cost of sales figure were the following:

	RM
• Depreciation of plant and machinery	35,000
• Insurance for the import of textiles paid to Malaysian incorporated insurance companies	18,000
• Damaged goods written off	20,000

3. Dividends were received on 1 October 2015 from several Malaysian companies listed on Bursa Malaysia. These companies had adopted single tier system for years.

4. Interest of RM6,000 was derived from deposits placed in banks in Chennai, India while the remainder was derived from deposits placed with local banks.

5. Salaries and wages include RM3,000 allowance for practical training students from Multimedia University and RM1,500 per month salary for physically disabled employee who has been employed by the business since 1 January 2015.

6. Repair and maintenance expenses include:

	RM
• Cost of purchasing two air conditioners	1,600
• Cost of new shelves	1,200
• Repainting of office and showroom	3,200
• Service and maintenance costs of business vehicles	3,000

7. Kumari made cash donation of RM3,000 to an approved charitable institution.

8. Travelling expense referred to expenses incurred in delivering goods to customers and the cost of meeting up with suppliers.

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9. General and administrative expense incurred is trade related.

10. Entertainment expenses include:

	RM
• Marketing expense	2,000
• Staffs' family day	5,000
• Lunches for existing clients which was wholly related to sales	1,000

11. Professional and legal fees include:

	RM
• Legal fees for handling income tax appeal	1,500
• Summon by police for traffic offences	1,200
• Subscriptions to trade association:	
- Entrance fees	500
- Annual fees	200

12. Provision for bad and doubtful debts:

	RM
• General provision for trade receivables	5,000
• Specific provision for trade receivables	2,000

13. Other expenses include:

	RM
• Medical expenses for Kumari's family members	4,000
• Cost of developing a website for the business	2,000

14. Other information
Kumari is eligible to claim capital allowance of RM25,000 for the year of assessment 2015 on assets used in the business.

Required:

Commencing with the net profit before taxation, compute the total income of Kumari for the year of assessment 2015 under the Income Tax Act 1967 (as amended).

Note: Your computation for the business should start with the 'net profit before taxation' figure and follow the descriptions used in the notes to the income statement. Indicate 'nil' in the appropriate column for any item that does not require adjustment. You do not need to provide explanation of the adjustments made. Marks will be awarded for appropriate labelling of the stages of income.

[Total: 40 marks]

End of question

Appendix 1

Tax rate for resident individual (year of assessment 2015)

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0-2,500	On the First 2,500	0	0
2,501-5,000	Next 2,500	0	0
5,001-10,000	On the First 5,000		0
	Next 5,000	1	50
10,001-20,000	On the First 10,000		50
	Next 10,000	1	100
20,001-35,000	On the First 20,000		150
	Next 15,000	5	750
35,001-50,000	On the First 35,000		900
	Next 15,000	10	1,500
50,001-70,000	On the First 50,000		2,400
	Next 20,000	16	3,200
70,001-100,000	On the First 70,000		5,600
	Next 30,000	21	6,300
100,001-150,000	On the First 100,000		11,900
	Next 50,000	24	12,000
150,001-250,000	On the First 150,000		23,900
	Next 100,000	24	24,000
250,000 – 400,000	On the First 250,000		47,900
	Next 150,000	24.5	36,750
Exceeding 400,000	On the First 400,000		84,650
	On amount exceeding 400,000	25	……

Non-Resident Individual Rate for employment income (year of assessment 2015)

Non-resident person other than companies: 25%

Companies Rates (year of assessment 2015)

(a) Company with paid up capital of RM 2.5 million and below at the beginning of the basis period for a year of assessment
On the first RM 500,000 chargeable income: 20%
On subsequent chargeable income: 25%

(b) Other companies (resident, non resident) 25%

Capital allowances

	Initial Allowance	Annual Allowance
Office equipment, furniture and fittings	20%	10%
Plant and machinery – general	20%	14%
Plant and machinery (heavy) and motor vehicle	20%	20%
Industrial building	10%	3%

Benefits in Kind (BIK)

(a) Household Furnishings, Apparatus & Appliances

	Types Of BIK	Annual Value Of BIK
(a)	Semi-furnished with furniture in the lounge, dining room or bedrooms.	RM 840 (RM 70 per month)
(b)	Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets	RM 1,680 (RM 140 per month)
(c)	Fully-furnished with benefits as in (a) and (b) above with one or more of the following: kitchen equipment, crockery, utensils and appliances.	RM 3,360 (RM 280 per month)
(d)	Service charges and other bills such as for water, electricity and telephone.	Service charges and bills paid by the employer.

Gardener	RM 3,600 per annum
Domestic servant	RM 4,800 per annum
Driver	RM 7,200 per annum

(b) Value of motor vehicles

Cost of vehicles (new) RM	Annual Value of BIK RM	Fuel per annum RM
Up to – 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 – and above	25,000	3,000

Personal relief and allowances applicable for the year of assessment 2015

	RM
Self	9,000
Disabled self	6,000
Medical expenses expended for parents	5,000
Medical expenses expended on self, spouse or child with serious disease, including up to RM500 for medical examination	6,000
Basic supporting equipment for disabled self, spouse, child or parent	6,000
Fees expended for skills or qualifications	5,000
Expenses on books for personal use	1,000
Spouse relief	3,000
Disabled spouse - additional	3,500
Child each (below 18 years of age)	1,000
Child each (18 years and above, unmarried and further higher education)	6,000
Disabled child each (unmarried)	6,000
Life insurance premiums & contributions to approved provident funds (max)	6,000
Private retirement scheme and annuity premium (max)	3,000
Medical or education insurance premiums for self, spouse or child	3,000
Purchase of a personal computer	3,000
Interest paid on housing loans	10,000
Purchase of sports equipment	300

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